Pacific Leasing Corporation Limited

6th ANNUAL REPORT
TO THE SHAREHOLDERS
YEAR ENDED JANUARY 31, 1966

PLC

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DIRECTORS

R. Murray Brink, O.B.E. ...... Vancouver, B.C.
President — Johnston Terminals Limited

John F. Coulter ...... Vancouver, B.C.
Partner — Coulter, Bryant & Co.

Allan M. Eyre ...... Vancouver, B.C.
President — Dueck on Broadway Limited

Frank F. Rush ...... Vancouver, B.C.
President of the Company

Dr. George E. Rush ...... Ogden, Utah
Research Director —
Amalgamated Sugar Company

Wm. E. Thomson ...... Vancouver, B.C.
President — Pemberton Securities Ltd.

Wm. F. Vaughan ...... Vancouver, B.C.
President — Power Holdings Limited

OFFICERS

FRANK F. RUSH ...... President

WM. F. VAUGHAN ...... Vice-President

R. D. JEWETT ...... Secretary

MRS. E. M. FINDLAY ...... Treasurer

TRUSTEE

Crown Trust Company ...... Vancouver, B.C.
: Series A, B and C Collateral Trust Notes
: Series A and B Debentures

REGISTRAR AND TRANSFER AGENT

Crown Trust Company ...... Vancouver, B.C.
: Series A, B and C Collateral Trust Notes
: Series A and B Debentures

Montreal Trust Company ...... Vancouver, B.C.
: Preferred Shares — Series B
: A and B Common Shares

BANKERS

The Royal Bank of Canada ...... Vancouver, B.C.

AUDITORS

Touche, Ross, Bailey & Smart
Vancouver, B.C.

OFFICE

2256 West 12th Avenue ...... Vancouver, B.C.
Telephone: 731-4969

To Our Shareholders:

Herewith the Sixth Annual Report of your Company, covering the twelve month period ending January 31st, 1966.

REVENUE & PROFITS

The results of the year's operation have been the most successful in the Company's history. Revenues rose to $498,687, a 76.6% increase over the figure of $282,224 for the previous year.

Profits for the year, after paying income taxes of $7,350 amounted to $190,608. After dividends of $12,095 on Preferred Shares, the amount attributable to Common Shareholders was $178,513 ($101,455 last year) or $3.85 per share. Because of significant changes in the share capital of your Company (outlined in more detail later on in this report) the per share earnings figures for the previous year are not on a comparable basis.

GROWTH

At the year end the value of contracts receivable (including residual values and renewals, minus a reserve for possible contract losses) was $5,059,692. The growth of business during the year is readily apparent when it is noted that the comparable figure for last year was $2,630,233.

On the whole, the additional business written during the year was of a most satisfactory category. A number of substantial companies were added to the Company's growing list of leasing clients and a further degree of diversification was attained in the industry served and the type of equipment leased.

CASH FLOW

Aside from capital funds raised during the year, operations produced a cash flow of $900,228, which was re-invested in lease contracts. The significance of this growing source of funds is obvious when it is noted that the cash flow for the year prior was $471,748, and the year before that, $379,866.

INCOME TAXES

Capital cost allowances which can be claimed by the Company make it possible to defer any income tax liability for the year's operations. Considering that there will be some future advantages in paying the maximum tax under the 21% rate, your Directors resolved last year that the Company should choose to incur a tax liability of $7,350 for the year. The policy continued this year. Furthermore it was decided to make the implementation of the policy retroactive by submitting an amended return for the year ended January 31, 1964 and making a payment of $7,350 rather than the nil amount specified in the original return.

Proposed changes in capital cost allowances outlined in the Budget Address of March 29, 1966 reduce the annual rate at which most allowances can be claimed on purchases made between that date and October 1, 1967. This will tend to hinder the Company's ability to defer future income tax payments and the Company will endeavour to counteract this by writing the bulk of its business, commensurate with usual risk precautions, in situations involving facilities classified under the higher rates of depreciation.

The new 5% refundable tax will cost the Company approximately $4,000 a month. For that part of the new fiscal year that this special tax is in effect the total cost will be in the order of $36,000.

CAPITAL BASE

In order to meet the increasing demand for the Company's services, and also to provide a more substantial base for future underwritings of subordinate capital, your Directors considered it advisable to increase the share capital of the Company. This was accomplished, firstly, by calling during July, the Series A Preferred Shares (having a total par value of $150,000) and issuing through a "Rights" offering in September, a new class of Preferred Shares, having a total par value of $612,500 and described as 6% Cumulative Redeemable Exchangeable Preferred Shares Series B.

All the holders of Series A Preferred Shares elected to convert their holdings into Class A Common Shares. Furthermore, the vast majority of holders of Warrants, (representing 16,010 out of 17,900 Warrants outstanding) who were entitled to buy Class A or Class B Common Shares at $10 a share, exercised their right to do so.

In summary the changes in the equity capital of the Company were:—

Class A Common Shares Issued in exchange for Series A Preferred Shares	$150,000
Class A & B Common Shares Issued against the exercise of Warrants	$160,100
Series B Preferred Shares New Issue	$612,500
	$922,600
Less — Series A Preferred — cancelled	$150,000
Net Change	$772,600

At year end the total invested capital in the business, including re-invested earnings, was $1,430,100. The comparable figure for a year ago was $512,468.

In May, 1965 a second issue of Collateral Trust Notes was underwritten. The principal amount was $800,000 and the issue was described as Series C. The main characteristics are a 6¼% interest rate, a term of 15 years, and a Sinking Fund requirement for 50% of the issue commencing three years after the date of issue.

DIVIDENDS

Dividends of 30¢ per share were paid on 15,000 Series A Preferred Shares during the part of the year that they were outstanding. Dividends of 31¢ per share were paid on the 24,500 Series B Preferred Shares for the initial partial quarter following their issue. The dividend rate on the outstanding A and B Common Shares was raised during the year from 60¢ to 80¢ per annum. The amount paid per share over the year was 62½¢.

The cash outlay for dividends on Series A and B Preferred and on the Common Shares amounted to $32,567. This is a relatively modest amount in the light of earnings of $190,608. On the basis of present share capital and dividend rates, requirements for dividends next year will be $73,886.

In view of the current restrictions in money sources and the favourable opportunities for investing in lease contracts, there is a need for retaining an appreciable portion of earnings. While your Directors hope to gradually increase dividend rates, payments will continue to be modest in relation to earnings.

OUTLOOK

The general restriction in sources of credit and the pall cast on the securities market following the failure, last year, of a large eastern finance company, are facts now well known to investors.

Shareholders will undoubtedly be interested to know how all this will affect the Company. In the first place the Company, in common with others in the financial service field, will need to exercise particular care before seeking additional funds from the public. Any restraint or delay due to this situation will not be particularly serious as, by using to the full the credit sources still available and the cash flow generated, it will be possible to continue writing a substantial volume of business. Furthermore the Company has not, and does not, rely on the short term money market for any of its funds. Accordingly the difficulties of meeting or refunding such obligations do not exist.

The Company confines its sales effort to Western Canada and is able to do this effectively through operating out of its headquarters in Vancouver. It has no branch offices which, during a period when business is somewhat confined, might be a burden to it. There is an adequate volume of business available to the Company which can be written at low selling and promotion costs, and with an improvement in risk and rates.

The expectations at this time are that the operating results for the coming year will show an improvement over those for the year under review.

PERSONNEL

The diligent efforts and whole-hearted co-operation of management and staff have been instrumental in the continued growth of the Company. On behalf of the Directors it is a pleasure to recognize and to express appreciation of this assistance.

ANNUAL MEETING

The Annual Meeting of the Shareholders of the Company will be held at 11:30 a.m. on Wednesday, May 4th next, in the Tudor Room of the Georgia Hotel, 801 West Georgia Street, Vancouver 1, B.C.

Class A Common Shareholders and Preferred Shareholders are not entitled to vote at the Meeting, nevertheless, they, as well as the Class B Shareholders, are cordially invited to attend.

Frank F. Rush

FRANK F. RUSH, President

April 19, 1966.

Pacific Leasing Corporation Limited

AND ITS WHOLLY-OWNED SUBSIDIARY

Consolidated Balance Sheet as at January 31, 1966

(WITH COMPARATIVE FIGURES FOR 1965)

ASSETS	**1966**	**1965**
Cash	$ 22,567	$ 4,619
Lease contracts receivable, and other contracts due in instalments to 1972, less allowance for possible losses on lease contracts $56,808; (1965 $22,645)	4,416,499	2,241,857
Rentals receivable	78,222	43,263
Deposits on equipment acquisitions	57,077	10,470
	4,551,798	2,295,590
Rental equipment—at estimated residual value (Note 1)	643,193	388,376
Prepaid expenses	5,954	4,775
Deposit with sinking fund trustee	18,185	10,697
Equipment and office furnishings—at cost less accumulated depreciation $6,189; (1965 $4,693)	9,386	5,432
Discount and expenses of long-term debt less amounts amortized	65,702	38,230
Commission on issue of preferred shares	17,252	7,500
	$5,334,037	$2,755,219

On behalf of the Board:

"FRANK F. RUSH," Director

"WM. E. THOMSON," Director

STATEMENT I

LIABILITIES AND SHAREHOLDERS' EQUITY	1966	1965
Current:		
Bank loan (secured by Collateral Trust Notes Series A)	$ 985,000	$ 630,000
Accounts payable	46,431	38,047
Accrued interest	30,179	16,095
Income tax payable (Note 3)	2,450	7,350
Sinking fund instalments due within one year	20,000	20,000
	1,084,060	711,492
Long-Term Debt (Note 2):		
7% Sinking fund debentures		
Series A due November 15, 1975	135,500	141,000
Series B due October 1, 1977	153,000	160,000
Collateral Trust Notes		
6% Series B due May 1, 1973	650,000	650,000
6¼% Series C due May 15, 1980	800,000	—
	1,738,500	951,000
Deferred Liabilities:		
Lease rentals received in advance	72,830	33,284
Unearned income on lease contracts (Note 3)	1,008,547	546,975
	1,081,377	580,259
Shareholders' Equity:		
Share capital (Note 4)		
Preferred shares		
Authorized, issued and fully paid		
24,500 6% cumulative redeemable exchangeable shares — Series B of $25 par value	612,500	
Common shares		
Authorized		
50,000 Class A and 25,000 Class B shares of $10 each		
Issued and fully paid		
23,710 Class A shares	237,100	
22,710 Class B shares	227,100	
	1,076,700	304,100
Surplus		
Contributed—premium on sale of Series B preferred shares	1,841	
Retained earnings—Statement III	351,559	208,368
	1,430,100	512,468
	$5,334,037	$2,755,219

The notes to the financial statements are an integral part thereof.

Pacific Leasing Corporation Limited

AND ITS WHOLLY-OWNED SUBSIDIARY

Consolidated Statement of Earnings

For the Year Ended January 31, 1966

STATEMENT II

(With Comparative Figures for 1965)

	1966	1965
INCOME:		
Income earned on lease contracts (Note 3)	$489,291	$279,711
Other income	9,396	2,513
	498,687	282,224
EXPENSES:		
Administrative expenses (including depreciation 1966 $2,994; 1965 $1,552)	120,464	72,051
Interest and finance charges (including amortization of long-term debt costs 1966 $12,664; 1965 $8,074)	180,265	92,368
	300,729	164,419
Earnings before provision for income taxes	197,958	117,805
Provision for income taxes (Note 3)	7,350	7,350
NET EARNINGS FOR THE YEAR	$190,608	$110,455

Consolidated Statement of Retained Earnings

For the Year Ended January 31, 1966

STATEMENT III

(With Comparative Figures for 1965)

	1966	1965
Balance at beginning of year	$208,368	$140,927
Less:		
Provision for 1964 income taxes	7,350	—
	201,018	
Add:		
Net earnings for the year—Statement II	190,608	110,455
	391,626	251,382
Deduct:		
Dividends paid		
Preferred shares	12,095	9,000
Common shares	20,472	6,549
	32,567	15,549
Commission on 6% Series A preferred shares retired during year	7,500	—
Incorporation expenses written of	—	369
Goodwill written off	—	27,096
	40,067	43,014
BALANCE AT JANUARY 31, 1966	$351,559	$208,368

The notes to the financial statements are an integral part thereof.

Auditors' Report to the Shareholders

Pacific Leasing Corporation Limited.

We have examined the consolidated balance sheet of Pacific Leasing Corporation Limited and its wholly-owned subsidiary, PLC Investments Ltd., as at January 31, 1966 and the consolidated statements of earnings and retained earnings for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. The financial statements for the preceding year have been examind by other independent auditors.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, the accompanying consolidated balance sheet and consolidated statements of earnings and retained earnings together with the notes referred to therein present fairly the financial position of the company and its wholly-owned subsidiary as at January 31, 1966 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles.

Vancouver, B.C.,
March 29, 1966.

TOUCHE, ROSS, BAILEY & SMART,
Chartered Accountants.

Notes to Financial Statements as at January 31, 1966

1. The cost of rental equipment shown on the balance sheet at estimated residual value of $643,193 at January 31, 1966 was $5,541,976. At that date the company had commitments for the purchase of rental equipment of approximately $340,000.

2. The long-term debt shown as $1,738.500 comprises the following:

	7% Sinking Fund Debentures		Collateral Trust Notes	
	Series A due November 15, 1975	Series B due October 1, 1977	6% Series B due May 1, 1973	6¼ % Series C due May 15, 1980
Authorized	$175,000	$175,000	$650,000	$800,000
Issued in previous years	$175,000	$175,000	$650,000	
Issued in the current year	—	—	—	$800,000
Less: Redeemed to date	29,500	12,000	—	—
Outstanding	145,500	163,000	650,000	800,000
Deduct: Sinking fund payments, required within one year, transferred to current liabilities	10,000	10,000	—	—
Balances—Statement I	$135,500	$153,000	$650,000	$800,000

In addition, $1,635,000 Series A Collateral Trust Notes are held by the company's bankers as security for the company's bank loan.

Security:
The collateral trust notes are secured by lease contracts receivable amounting to $4,191,676 pledged as collateral.

Terms of Minimum Repayment:

Series A debentures	1975	$10,000 annually — sinking fund.
Series B debentures	1977	$10,000 annually — sinking fund.
Series B collateral trust notes	1973	At maturity
Series C collateral trust notes	1980	$35,000 1968-1979 — sinking fund.

Notes to Financial Statements (continued)

Restrictions on Dividends and Redemption of Shares:
Under the terms of issue of the 7% Series A sinking fund debentures, the company has covenanted that not more than one-half of its earnings available for dividends will be paid out as dividends or for redemption of shares. At January 31, 1966 one-half of earnings available for dividends exceeded dividends paid to date by $142,400. No shares have been redeemed out of earnings.

3. Under the company's method of accounting for income on lease contracts, unearned income (representing the excess of total rentals receivable over the cost of the related rental equipment less its estimated residual value at the end of the prime period of the lease) is taken into earnings on the sum-of-the-digits basis.

For income tax purposes lease rental payments are taxable in the year receivable and capital cost allowances are claimed in respect of the cost of the rental equipment as permitted by the taxation authorities. As a result, income taxes otherwise payable have been reduced by approximately $88,000 in 1966 ($47,500 in 1965) and, in the aggregate to date, by $144,500.

4. By a special resolution, confirmed by the Registrar of Companies on September 14, 1965, the company made the following changes in its authorized share capital:

	6% cumulative redeemable exchangeable preferred shares		Common shares	
	Series A $10 each	Series B $25 each	Class A $10 each	Class B $10 each
Authorized at January 31, 1965	15,000	—	26,000	25,000
Cancelled — September 14, 1965	(15,000)	—	—	—
Authorized — September 14, 1965	—	24,500	24,000	—
Authorized at January 31, 1966	—	24,500	50,000	25,000

The corresponding changes in issued share capital are set out in the following tabulation:

Issued at January 31, 1965	15,000	—	20	15,390
Series A preferred exchanged for Class A common	(15,000)	—	15,000	—
By exercise of warrants Class A and B common issued for cash	—	—	8,690	7,320
New issue of Series B preferred shares @ $25 each issued for cash	—	24,500	—	—
Issued and fully paid at January 31, 1966	Nil	24,500	23,710	22,710

At January 31, 1966 unissued shares were reserved for the exercise of share warrants and options as follows:

(a) 26,290 Class A common shares for the exercise of warrants attached to the debentures to purchase Class A common shares @ $10 a share up to November 15, 1970, and for the exchange of 24,500 Series B preferred shares on a share-for-share basis up to December 14, 1975.

(b) 100 Class B common shares for the exercise of warrants issued to the holders of Class B common shares to purchase additional shares of that issue @ $10 per share up to November 15, 1970.

Of the Series B preferred shares issued during the year, 1,841 shares were issued at a price of $26 per share, thus creating a premium of $1,841.

5. Directors' remuneration for the year ended January 31, 1966, including salaries, fees and pension contribution, amounted to $19,642.

PLC